Ontario

Deposit Insurance
Corporation of Ontario

Société ontarienne
d'assurance-dépôts

Deposit Insurance Corporation of Ontario

PROTECTION - SECURITY - STABILITY

2005 Annual Report

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Ontario

Deposit Insurance Corporation of Ontario

Société ontarienne d'assurance-dépôts

Wm. D. (Bill) Spinney
Chair of the Board
Président du Conseil d'administration

March 1, 2006

The Honourable Dwight Duncan
Minister of Finance
Frost Building South, 7th floor
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

Dear Minister:

I have the honour to submit to you and the Superintendent of the Financial Services Commission of Ontario the Annual Report of the Deposit Insurance Corporation of Ontario for the 12 month period ended December 31, 2005.

Yours truly,

Deposit Insurance Corporation of Ontario Staff

DICO STAFF (left to right)
Sitting: **Yasmin Khoja, Bob Edmison, Adrienne Barber, Richard White, Alla Brachman, Barry Brydges**

Standing (first row): **Grace Wen, Helen Poter, Danny Pianezza, Tony D'Errico, Andy Poprawa, Rannie Turingan, Entela Josifi, Mercedes Ruano, Carmen Gheorghe**

Standing (second row): **Alana McLeary, Sharon Haslett, John Burgman, Bill Foster, Jim Maxwell, Andy Rechtshaffen, Steve Kokaliaris, Naile Piranaj, Michael White**

Absent: **Suzanne Boyer, Richard Dale, Brigitte Elie, John Hutton, Winnie Yu**

Mission : To protect depositors

Vision

We will support the Ontario Credit Union and Caisse Populaire System by providing depositor protection, building financial soundness and working in collaboration with stakeholders.

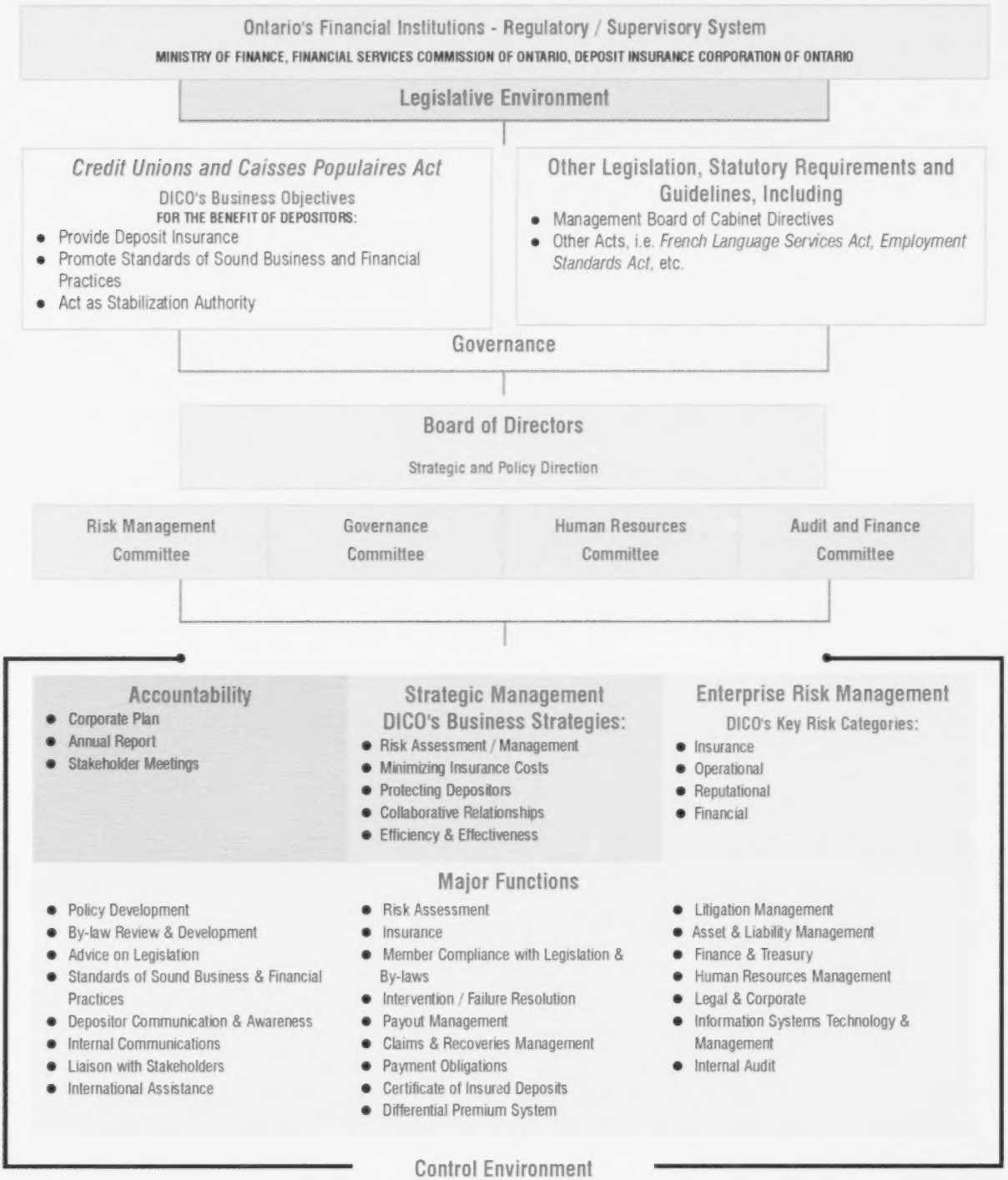
Values

In all our activities we will strive to:

- Act with professionalism and integrity;
- Provide value;
- Be proactive and innovative;
- Recognize and respect the principles, values and diversity of the credit union / caisse populaire system;
- Collaborate with stakeholders;
- Recognize the diversity and acknowledge the importance of our staff;
- Provide an environment where employees are treated fairly, and given opportunity and encouragement to develop their potential.

DICO Business Model

DICO has developed a business model to encapsulate the way in which the Corporation conducts its business in light of its legislation and overall environment. This business model reflects DICO's position as an integral part of Ontario's financial safety net, with its own legislated mandate. DICO's Board of Directors and management activities are considered under the umbrella category of governance. This also reflects the importance of strategic management and enterprise risk management. The importance of accountability is also highlighted in the business model, as are the major functions of the Corporation in fulfilling its mandate.



Corporate Governance

The Deposit Insurance Corporation of Ontario is an agency of the Province of Ontario established in 1977 and operates under the *Credit Unions and Caisses Populaires Act, 1994*. The Act sets out DICO's objects, powers and duties as well as general terms for deposit insurance and other governing parameters. DICO functions within the legal framework established by the Act, Management Board of Cabinet Secretariat Directive on Agency Establishment and Accountability and other applicable laws. The Corporation is ultimately accountable to the Legislature through the Minister of Finance for the conduct of its affairs.

The Act requires that the DICO Board of Directors "shall manage the affairs or supervise the management of the affairs of the Corporation…". The Board of Directors is composed of up to eleven persons all of whom are appointed by the Lieutenant-Governor-in-Council to serve for various terms of usually up to three years. At least four of the members of the Board must be appointed from individuals nominated by the credit union and caisse populaire movement.

DICO follows a unique appointments process to ensure that it recruits the best qualified people to its Board. The Corporation has established a skills profile in addition to a position description for directors. DICO has also established a gender, experience, skills and geographic representation profile for the Board as a whole to ensure that it maintains an appropriate balance of these attributes. All potential candidates for the Board are screened and interviewed by a committee of the Board prior to being recommended for appointment to the Minister. In each case, DICO provides the Minister with more than one candidate for each position. Once the Minister has made a selection, that recommendation is forwarded to the Cabinet for approval.

DICO follows best practices in corporate governance including:

- a formal director orientation process;
- continuous director development;
- Board succession planning;
- annual Board assessment and feedback;
- regular in-camera sessions; and
- annual strategic planning session.

The Board also establishes annual objectives for itself and measures its performance against those stated objectives. These include strategies for risk management and communication with stakeholders, executive management and management reporting and control.

DICO is a member and active participant in the Conference Board of Canada's Corporate Governance Forum. This forum provides the Corporation with an insight into best and next practices for achieving excellence in governance.

Sub-Committees of the Board

(as at December 31, 2005)

DICO'S BOARD OF DIRECTORS MEETINGS 2005

	# MEETINGS	% ATTENDANCE BY DIRECTORS
DICO BOARD	4	94%
AUDIT AND FINANCE COMMITTEE	4	100%
RISK MANAGEMENT COMMITTEE	4	100%
HUMAN RESOURCES COMMITTEE	2	100%

Audit and Finance Committee

This committee reviews the investment policies and procedures as well as monthly and annual financial statements of the Corporation. It reviews the results of the external auditors' audit of the annual financial statements. The committee also reviews recommendations made by the internal auditor regarding internal controls and procedures and ensures that appropriate action is taken.

- David Yule, *Chair*
- Laura Talbot-Allan
- Wm. D. (Bill) Spinney, *ex-officio*

Governance Committee

This committee reviews and makes recommendations to the Board on governance, corporate policy issues, by-laws and policies. The committee also acts as a co-ordinator of the Board for special projects such as corporate strategic planning.

- Wm. D. (Bill) Spinney, *Chair*
- Sherry MacDonald
- Laura Talbot-Allan
- David Yule, *Vice-Chair*

Human Resources Committee

This committee reviews and makes recommendations to the Board on policies relating to the Corporation's human resources plans, compensation, employee benefits and related matters.

- Laura Talbot-Allan, *Chair*
- Paul Mullins
- Wm. D. (Bill) Spinney, *ex-officio*

Risk Management Committee

This committee reviews the principal risks to the Corporation including deposit insurance risk exposure and makes recommendations to the Board relating to its Framework for Enterprise Risk Management including risk assessment and risk management policies, programs and guidelines.

- Sherry MacDonald, *Chair*
- Ron Fitzgerald
- Benoit Martin
- Leslie Thompson
- Wm. D. (Bill) Spinney, *ex-officio*

DICO Board of Directors

DICO BOARD OF DIRECTORS, from left to right
Sitting: **Laura Talbot-Allan, Wm. D. (Bill) Spinney, Sherry MacDonald**
Standing: **Leslie Thompson, Paul Mullins, Ron Fitzgerald and Benoît Martin**
Absent: **David Yule**

Wm. D. (Bill) Spinney, BA

Wm. D. (Bill) Spinney, Chair of the Board, is General Manager of Parry Sound Area Community Business and Development Centre which provides lending/mentoring to small businesses as well as Community Economic Development services. Bill has a background in administration and commercial credit with a chartered bank as well as commercial and residential real estate brokerage. Mr. Spinney was appointed on March 19, 2003 and his term expires on March 18, 2006.

Ron Fitzgerald

Ron Fitzgerald retired in 1997 as Chief Executive Officer of The Civil Service Cooperative Credit Society Limited (CS COOP). He was also Vice-President of The Association of Credit Unions of Ontario and represented independent credit unions at The Canadian Payments Association. He has been actively involved with credit unions since 1964. Mr. Fitzgerald was appointed to a second 3 year term on May 21, 2003 and his term expires on May 20, 2006.

Sherry MacDonald, CA

Sherry MacDonald is VP Risk Management and CFO at a major education savings plan organization with a focus on risk management of investment portfolios and adherence to regulatory requirements in operations. With more than thirteen years of financial management experience in the investment management and pension industries, she has specialized in start-up implementation of treasury and finance functions as SVP Finance and Chief Financial Officer. Ms. MacDonald was appointed to a second 3 year term on March 2, 2005 and her term expires on March 1, 2008.

Benoît Martin

Benoît Martin retired as Electronics & Project Chief Engineer with General Dynamics Canada. His activities with the caisses populaires movement included the position of Chair and Vice Chair of La Fédération des caisses populaires de l'Ontario and member and Chair of various caisses populaires. Mr. Martin is also active in a number of community organizations. Mr. Martin was appointed to a second 3 year term on March 3, 2004 and his term expires on March 2, 2007.

Paul Mullins, BA, LLB

Paul Mullins is a lawyer who has had his own practice in Windsor and Essex County since 1971. He was a commissioner for the Federal Human Rights Tribunal. He is a Director and former President of Windsor Homes Coalition which provides low income housing to needy families. He served as a Director of Woodslee Credit Union Limited for 24 years. He is currently Chair of the Board of United Communities Credit Union which has 33,000 members and assets of over $450 million. Mr. Mullins was appointed on June 17, 2004 and his term expires on June 16, 2007.

Laura Talbot-Allan, MBA, FCMA

Laura Talbot-Allan is Vice President, External Relations at University of Waterloo, responsible for outreach communications, business and government relations, and strategic initiatives to generate public and private sector support, including the $350 million private sector Campaign. Previously, Laura held senior executive roles with several Canadian utilities, the federal government and the Red Cross. She was also Vice Chair of the CS COOP Board, Chair of the Society of Management Accountants of Canada and remains involved with appointments to the Health Quality Council of Ontario and the Waterloo Communitech Board. Ms. Talbot-Allan was appointed to a second term on March 24, 2004 and her term expires on March 23, 2007.

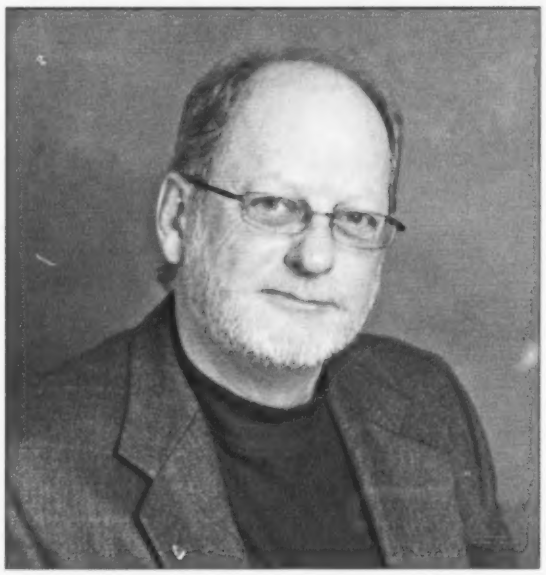
Leslie Thompson, MBA, MFA, FCSI

Leslie Thompson is President of LESRISK, Debt and Risk Management Inc. She is a risk management pioneer and consultant with experience as a senior executive with both financial institutions and government. Her clients include financial institutions, governments and supra-nationals in Canada and abroad. Formerly, she was a Vice President of Union Bank of Switzerland and The Chase Manhattan Bank. She also led the start-up operations of The Province of Ontario's treasury operations (now Ontario Financing Authority). Leslie Thompson earned a Masters of Business Administration at the Ivey School of Management, an MFA at the University of Illinois, a certificate in Advanced Management of Strategic Change at Rotman and she is a Fellow of the Canadian Securities Institute. Ms. Thompson was appointed on October 12, 2005, and her term expires on October 11, 2008.

David Yule, BComm, FCA

David Yule, Vice-Chair, retired in 1997 as a partner with Ernst & Young where he was involved in their financial institution audit practice and their forensic accounting practice. He currently serves on several boards of directors and carries on a financial consulting practice. Mr. Yule was appointed to a second term on March 24, 2004 and his term expires on March 23, 2007.

Message from the Chair



Wm. D. (Bill) Spinney
Chair of the Board of Directors

During the past year DICO has continued making significant progress in the achievement of its long term strategic objectives. On behalf of the Board of Directors, I am pleased to highlight some of the Corporation's accomplishments over the past year:

- Despite the failure of an insured institution, all deposits with an Ontario credit union or caisse populaire were protected from loss;
- The deposit insurance reserve fund grew to $85 million - slightly ahead of target;
- Our operations were further streamlined to reduce operating costs;
- The management of our investment portfolio was undertaken by the Ontario Financing Authority;
- Our updated standards of sound business and financial practices by-law became effective on July 1, 2005; and
- Our consumer information initiative was fully implemented.

Despite a claim against the fund, our reserve fund target was met in 2005 and is now equivalent to 50 basis points of insured deposits compared to our fund target of 60 basis points. Average premium rates decreased a further two percent compared to the previous year.

Through all of its policies and programs, DICO is continuing to support the stability of and confidence in the Ontario credit union and caisse populaire movement. Our continuing review of the commercial lending practices of larger insured institutions confirms that the commercial credit risk within the industry is generally well managed. During 2005 we introduced a pilot program to evaluate structural risk at insured institutions in order to evaluate the ability of boards and management to understand and manage structural risks. Our smaller member institutions' initiative is helping limited-service institutions comply with our standards by assisting them in implementing appropriate risk management practices. Finally, our on-site verification (inspection) program continues to focus on material risk areas in order to provide value-added feedback to insured institutions.

As a result of effective management by member institution boards and staff, the current financial health and operational capacity of the Ontario credit union and caisse populaire movement continues to be strong despite ongoing competitive pressures and a changing financial sector landscape.

DICO continues to follow best practices in governance as set out in current literature on the subject including the Conference Board of Canada's publications. For example, each Board meeting includes an in-camera session as well as a director development portion. Details of our governance practices can be found in this annual report.

I would like to take this opportunity to express my appreciation to all our Board members for their dedication and professionalism in working together in the interests of all stakeholders. Readers will note from their respective biographies, that all of our directors bring a high level of skill, expertise and experience to the Corporation. During the past year, Mr. Royal Poulin of Lavigne, Ontario retired from the board after serving

for three years. On behalf of the board and staff I would like to thank Royal for his valuable contribution and dedication to DICO. His wise counsel will be missed. During late 2005 and early 2006, we welcomed Leslie Thompson of Toronto and André Auger of Sturgeon Falls to the board. Ms. Thompson is the President of LESRISK Inc. a risk management consulting firm. Mr. Auger, who was nominated by L'Alliance des caisses populaires, is a past chair of both Caisse Populaire Sturgeon Falls and L'Alliance.

Developments in the movement's financial and operational position have implications for DICO's strategic direction. The strategies employed over the past few years to improve risk management practices at individual member institutions have been successful due, in large measure, to the ongoing positive and productive co-operation between member institutions and DICO.

For 2006, DICO has identified a number of key priorities:

- Participating in the ongoing review of the Credit Unions and Caisses Populaires Act by providing advice and research to government as requested;
- Implementing our revised risk assessment process in order to better understand institution risk profiles;
- Reviewing our differential premium system and premium rates;
- Evaluating the adequacy of our insurance fund; and
- Updating our framework for Enterprise Risk Management to respond to emerging risks;

In conclusion, we believe that our long-term strategic direction has supported our mandate and the system's goal to be more competitive and responsive to its members' needs. By exercising continued vigilance through our risk assessment and management programs and by building a strong financial base, DICO believes that we will continue to protect depositors effectively, reduce the cost of depositor protection, and contribute to the stability of and confidence in Ontario's credit unions and caisses populaires. We look forward to working with our stakeholders to achieve these goals.

> As a result of effective management by member institution boards and staff, the current financial health and operational capacity of the Ontario credit union and caisse populaire movement continues to be strong despite ongoing competitive pressures and a changing financial sector landscape.

On behalf of the Board, I would like to express my sincere appreciation to all stakeholders who have joined with us in demonstrating a willingness to communicate and work together in achieving these goals.

On a personal note, as my term as Chair will expire in early 2006, I would like to thank all my fellow directors and staff with whom I have had the pleasure of working with for their dedication and unfailing support. When I became a director of DICO in 2000, the Corporation was still in a deficit position. Today, I leave DICO with a sense of pride in our collective achievements in not only building a substantial reserve fund but in having served the credit union and caisse populaire community well. I wish both the movement and DICO well in the future.

On behalf of the Board of Directors,

William D. (Bill) Spinney
Chair

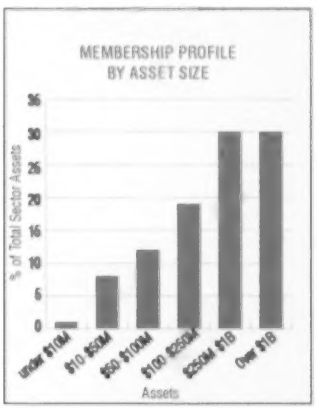
Improving Operational Performance - CEO's Report

EXECUTIVE TEAM: Andy Poprawa, *President & CEO*
Sitting (left to right): **Barry Brydges**, *Vice President*, Insurance & Risk Management, **Yasmin Khoja**, *Executive Assistant*
Standing (left to right): **C. William D. Foster**, *Vice President*, Asset Management & Recoveries, **James Maxwell**, *Chief Administrative & Financial Officer*

On behalf of the staff, I am pleased to provide an overview of Ontario's credit unions and caisses populaires and to report on our progress in achieving DICO's corporate goals during 2005.

Membership Changes - Continued Consolidation

During 2005 consolidation in the movement continued with the number of active member institutions declining by 14 to a total of 227 as a result of mergers or wind-ups. Two of these mergers created very large institutions by Ontario standards - one with assets in excess of $3 billion and another with assets of almost $2 billion. Today, almost 50% of the assets of the Ontario movement are held by the largest 10 member institutions.

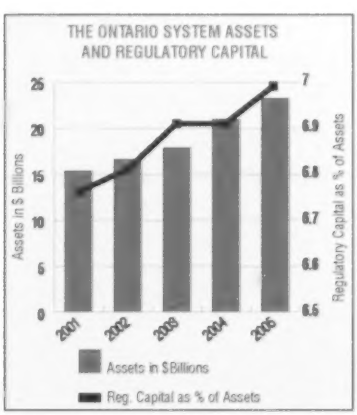


Asset Growth and Liquidity

Aggregate on-balance sheet assets and deposits exhibited growth year over year of over 4%. Growth in commercial loans remained very strong at 14% while aggregate residential mortgage loans showed slower growth at 9%. The composition of deposit liabilities remained largely unchanged from the previous year with about one-third each in demand, term and other registered deposit instruments. At the end of 2005 gross liquidity was slightly below 14% continuing its three year downward trend.

Capitalization Remains Strong

Aggregate capital within the sector improved to 7% of assets of which over 4% represented retained earnings. At the end of 2005, all but three member institution (one of which is under DICO's administration) met the prescribed statutory minimum of 5% on a leverage basis.

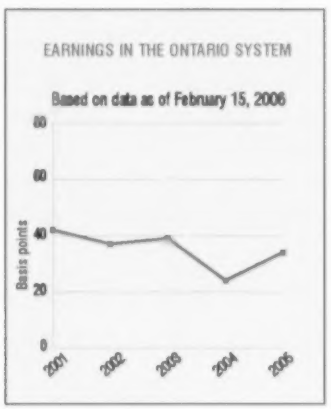


Loan Quality Remains Within Acceptable Levels

Throughout 2005 the system's loan quality, as measured by aggregate loan costs, and delinquency remained within acceptable levels. In addition, the coverage ratio (loan allowances as a percentage of impaired loans) has steadily increased over the past three years indicating that institutions are establishing prudent reserves in the event of future credit problems. Gross delinquency greater than 90 days increased slightly to 52 basis points of total loans compared to 49 basis points in 2004.

Aggregate Profitability Improves

Profitability during 2005 continued to be impacted by the low interest rate environment. Financial margins increased marginally as rates moved higher during the year, however, aggregate operating expenses also increased thus reducing the overall positive impact. Overall aggregate return on average assets increased to 34 basis points from 24 basis points in 2004. A number of institutions experienced operating losses during 2005. These institutions are being closely monitored to ensure that either the underlying reasons for the losses are being rectified or that sufficient capital is being injected by members to support their continued viability.



Enhanced Adherence to Standards of Sound Business and Financial Practices

During 2005, adherence to the Standards of Sound Business and Financial Practices continued to increase as measured by the results of the On-Site Verification (inspection) program. By the end of the year 88% of member institutions, including virtually all larger institutions, had achieved full compliance with all standards - a 8% increase from the prior year.

Distribution of Member Institutions by Premium Category

DICO's Differential Premium System (DPS) measures the aggregate risk profiles of institutions using quantitative and qualitative factors for five key components - capital, asset quality, adherence to standards of sound business and financial practices, earnings, and interest rate risk. The following table demonstrates the positive migration to lower premium rate tiers over the past four years. As a result, the overall cost of deposit insurance to member institutions continues to decline.

OVERALL DPS RISK RATINGS: 2001 TO 2005
DISTRIBUTION BASED ON % OF SYSTEM ASSETS
RATE PER $1,000 INSURED DEPOSITS

Premium Rate $	Risk Level	2001	2002	2003	2004	2005
0.90	Low	13%	15%	30%	38%	36%
1.00	Low	46%	50%	39%	40%	48%
1.15	Mod.	33%	30%	30%	20%	15%
1.40	High	7%	4%	1%	1%	1%
2.10	High	1%	1%	0%	1%	0%

SUMMARY

In the context of a continuing low interest rate and competitive market environment, the Ontario credit union and caisse populaire sector has further consolidated and, at the same time, grown to expand services to communities across the province. The decline in profitability in some member institutions continues to be a concern for their future viability in this competitive financial services marketplace.

DICO'S MEMBERSHIP PROFILE AT A GLANCE....

	2005	2004
Number of Institutions	227	241
Total Assets (billions)	$23.3	$22.2
Total Deposits (billions)	$20.7	$20.0
Insured Deposits (billions) % of Total Deposits	$17.0 82%	$16.7 84%
Regulatory Capital ratio (leverage basis)	7%	6.9%
Asset quality (loan costs as a % of average assets)	0.12%	0.10%
Profitability (net income % of average assets)	0.34%	0.24%

DICO'S STRATEGIES AND OBJECTIVES

To fulfil its statutory mandate, DICO has established five key corporate objectives in its Corporate Plan:

- Proactively assess and manage risk to the fund;
- Minimize the cost of deposit insurance to member institutions;
- Ensure that sufficient financial reserves are available to protect depositors' funds;
- Maintain collaborative relationships with our stakeholders; and
- Be as efficient and effective as possible.

We are pleased to report to stakeholders that the specific goals outlined in our Plan were achieved during 2005.

Proactively Assess and Manage Risk to the Fund

With the support of our stakeholders, DICO has implemented rigorous and disciplined processes to assess and manage the risk to the fund in order to protect the interests of depositors. These processes have assisted in the overall reduction of claims against the fund as well as improving the financial and operational health of our member institutions.

During 2005 our specific goals included:

- Promoting revised Standards of Sound Business and Financial Practices;
- Maintaining a current risk profile for each member institution by conducting on-site and off-site risk assessments;
- Providing member institutions with financial analysis and other information to assist in managing their risks;
- Conducting research into emerging risks and providing information to stakeholders;
- Intervening in the affairs of member institutions where the risk to the fund was considered significant or where member institutions required assistance and guidance.

2005 RESULTS

Promoting revised Standards of Sound Business and Financial Practices

DICO's Standards of Sound Business and Financial Practices (DICO By-law #5) are a key element of our risk assessment and management strategy. We believe that those member institutions that comply with these standards will significantly reduce the likelihood of problems and resulting intervention by DICO or the Financial Services Commission of Ontario (FSCO). Compliance with this by-law is a condition of deposit insurance, applicable to all insured member institutions; the by-law became effective for fiscal year-ends commencing after July 1, 2005. The more significant changes to the previous by-law included a clarification of the responsibilities of the board and management, a streamlined reporting mechanism and guidance on new and emerging risks. During 2005, DICO worked with the industry to update a number of implementation tools to provide assistance and guidance in complying with the revised standards.

DICO'S 2005 FINANCIAL SCORECARD ($MILLIONS)		
	Target	Actual
Insurance Fund	$84.8	$85.0
Gross Insurance Claims	$3.0	$3.2
Recovery of Prior Years' Losses	0	$0.5
Total Gross Operating Expenses	$5.9	$5.7
Total Net Operating Expenses	$5.8	$5.6
Return on investments	2.75%	2.76%

Maintaining a Current Risk Profile

During 2005 DICO introduced a revised risk assessment framework with a view to modernizing the process in light of the changing demographics of the Ontario movement. The revised "Risk Assessment Framework" has been developed based on similar frameworks currently being used by the Office of the Superintendent of Financial Institutions (Canada), the Financial Institutions Commission of British Columbia and the Credit Union Deposit Guarantee Corporation of Saskatchewan. This new framework is based on a risk based evaluation of the inherent risk associated with each member institution and the quality of its risk management consistent with the requirements of the revised standards of sound business and financial practices.

In order to complete an assessment of an institution's risk profile, DICO staff use information from various sources including quarterly and annual filings, annual business plans and reports, results of on-site verifica-

tions and reviews as well as interviews with management and board.

DICO completed a total of 109 On-Site Verifications, On-Site Reviews and Commercial Loan and Structural Risk Reviews during 2005. Pursuant to our agreement with FSCO, the regulatory agency responsible for Ontario credit unions and caisses populaires, these OSVs were conducted in accordance with agreed upon standards using external professional firms. To address the potential risk inherent in the growing commercial loan portfolio within the movement, DICO continued its reviews of the commercial lending practices and portfolios of insured institutions utilizing expert external resources.

The results of the review indicate that the commercial loan practices within the movement are generally satisfactory. In order to assist insured institutions in better managing commercial lending risks, DICO sponsored the development of best practices in commercial lending including guidance on risk rating systems, watchlist processes and documentation standards. These revised best practices have been made available to all insured institutions. In addition, a new project to review structural risks inherent in the operations of credit unions and caisses populaires was also introduced. DICO plans to expand this program in 2006 with the objective of developing best practices for structural risks as well.

Smaller Member Institution Initiative

In recognition of the special needs of smaller member institutions, particularly closed bond credit unions with basic savings and loan operations, DICO continues to employ its own staff to conduct on-site reviews and, while on site, assist member institutions in implementing the required risk management processes to ensure adherence to the standards. This approach recognizes the limited resources available to smaller institutions and has proven to improve their ability to continue to provide services to their members.

Providing Financial Analysis and Information

In the past DICO provided all member institutions with financial analysis and information regarding their condition and performance on a regular basis. However, the development of these reports became less meaningful as the diversity within the industry began to broaden significantly. Consequently, during 2005, DICO worked with a software development firm to develop and implement a dynamic, sophisticated web-based financial analysis tool that provides all institutions with the ability to perform various analytical functions, including self-selected peer group analysis, through the DICO website. These new features will assist institutions in performing meaningful financial analysis and comparisons using other similar credit unions and caisses populaires as benchmarks.

Conducting Research

DICO conducts research on emerging risks and provides the results to various stakeholders including insured institutions, FSCO and the Ministry of Finance. During 2005, DICO provided a significant amount of research to support the ongoing discussions related to a review of the legislation and regulations.

Intervening in the Affairs of Member Institutions

Early involvement with member institutions that exhibit a higher risk profile minimizes the likelihood and size of insurance losses in the future. In the event that member institutions are unable or unwilling to take appropriate corrective action, DICO has the authority to intervene in their affairs to assist in ensuring that timely action plans to resolve exceptional risks are implemented. Intervention is a phased-in approach with three stages. The level of intervention by DICO during 2005 remained relatively stable as the number of problem institutions did not increase significantly.

Member institutions that exhibit a higher risk profile are placed on the Watchlist. During 2005, DICO worked with the boards of 13 member institutions on the Watchlist with total assets of $2.41 billion. As a result, 2 member institutions were successful in resolving their problems and no formal intervention was required. At the end of the year, 11 institutions (5 in 2004) with assets of $2.39 billion remained on the Watchlist. Member institutions, which meet certain risk-based criteria, may be placed under Supervision. In consultation with the Stakeholder Advisory Committee, comprised of league and association CEOs and other system leaders, minimum capital and other intervention criteria for Supervision for all credit unions and caisses populaires have been established. The criteria for Supervision are: failure to meet the regulatory minimum capital level of 5% on a leverage basis or material and sustained non-

compliance with DICO's standards of Sound Business and Financial Practices as determined by the results of an OSV. DICO follows the practice of providing member institutions with time to correct deficiencies in their operations, as identified through OSVs, prior to being placed under Supervision. The length of time provided is dependent on the seriousness of the deficiency and the likelihood of early correction. During 2005 there were no member institutions placed under Supervision.

In circumstances where a member institution is unable to meet its obligations, DICO has the authority to place it under its Administration. Administration allows the member institution to continue to operate under DICO's control while providing sufficient time to develop and implement the most appropriate resolution strategy to protect depositors and the fund. At the end of 2005, one institution - Mariposa Community Credit Union Limited with assets of $14 million was under Administration. This credit union came under the administration of DICO after substantial loan losses were incurred and reported. DICO has developed a resolution strategy to ensure that all insured depositors are protected from loss and that maximizes recoveries to shareholders.

After the failure or near failure of an insured institution, DICO completes an analysis of what went wrong and takes whatever steps are necessary to try to minimize the likelihood of similar occurrences in the future. This includes sharing information with law enforcement and investigative agencies in situations where it is believed that the law has been violated. For example, during 2005 the former CEO of a credit union pleaded guilty to provincial offense charges after failing to report a serious liquidity problem. In another situation, criminal charges were brought against a former director of a caisse populaire for fraud.

Minimize the Cost of Deposit Insurance to Member Institutions

The cost of deposit insurance to member institutions continues to decrease largely as a result of improved risk profiles of member institutions. In 2005 average premiums amounted to slightly less than $1 per thousand of insured deposits or about 2.3% of aggregate operating expenses. In addition, the recovery of costs by FSCO to member institutions has also fallen since the responsibility for routine off-site and on-site risk assessment was undertaken by DICO. However, DICO recognizes that deposit insurance is an important cost factor in today's competitive marketplace. DICO has undertaken, as a strategic objective, to minimize these costs while ensuring an appropriate risk management framework remains in place. During 2005, our specific goals included:

- Reviewing the premium levels to ensure that they are adequate to meet fund targets; and
- Maximizing recoveries through liquidation and litigation.

2005 RESULTS

Differential Premium System

The differential premium system was designed to reward member institutions with lower premiums if they have a lower risk profile. Each year DICO reviews its assessment process and the premium rates to ensure that the system is achieving its primary goals. The results of risk ratings indicate that the majority of member institutions have taken the appropriate steps to ensure that their premiums rates are minimized, thus lowering the risk to the deposit insurance reserve fund. As a result of improved risk profiles based on increased earnings and better adherence to standards, deposit insurance premiums in 2005 were lower than forecast. Ontario deposit insurance rates are now competitive with those of other provincial credit union/caisse populaire deposit insurance and stabilization organizations.

DEPOSIT INSURANCE ESTIMATED EFFECTIVE PREMIUM RATE COMPARISON WITH SELECTED PROVINCIAL JURISDICTIONS IN 2004

PROVINCES	ASSESSMENT PER $1,000 INSURED DEPOSITS	COST OF OPERATIONS
Alberta	$1.70	$0.44
Saskatchewan	$0.50	$0.51
Manitoba	$0.98	$0.31
Quebec	$0.66	$0.41
Ontario (2005)	**$1.00**	**$0.31**

An analysis of premium levels indicated that DICO was on track to meet its fund target with the current level of premium income. As a result, we recommended to the government that the current level of premiums be maintained for 2006.

During 2005 DICO began the process of reviewing its differential premium system with the objective of enhancing the regime. A panel of industry representatives was struck to provide advice and counsel on any proposed amendments. Research will continue on this project during 2006 in conjunction with the ongoing discussions regarding a new legislative framework.

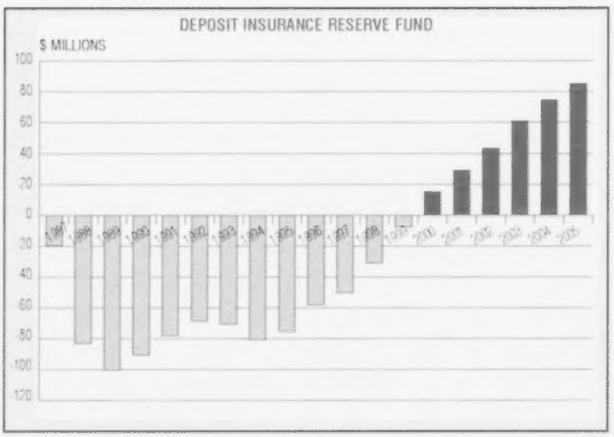
Maximizing Recoveries Through Liquidation and Litigation

In most instances where a member institution has ceased operations, the Corporation is appointed Liquidator of the estate. The main purpose is to protect depositors and maximize the recovery of assets. At the end of 2005, DICO was managing the affairs of 7 institutions (11 in 2004) in liquidation. During the year, DICO realized $257 thousand in assets of member institutions. In 2005, as a result of resolution strategies, DICO's recoveries on losses were $198.9 thousand. At the end of 2005, one legal action to recover losses was outstanding.

Ensure that Sufficient Financial Resources are Available to Protect Depositors' Funds

Access to sufficient financial resources is an important element of our depositor protection mandate and provides assurance to insured depositors that DICO can meet its statutory obligations to pay claims, if and when, a member institution fails. To ensure that these financial resources are available, DICO is in the process of building a deposit insurance reserve fund and, in addition, maintains a borrowing facility to meet unexpected claims. During 2005, our specific goals included:

- Achieving a reserve fund balance of $84.8 million;
- Implementing the long-term fund strategy;
- Maintaining appropriate contingency financing;
- Developing and testing a contingency plan to deal with possible failure scenarios and
- Maximizing investment income on the fund while maintaining appropriate liquidity and compliance with the Act.



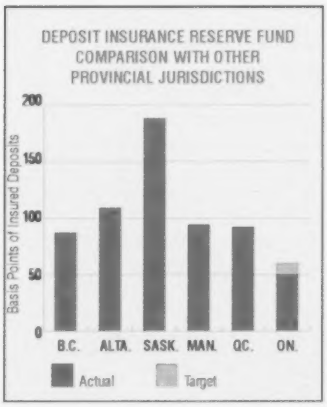
2005 RESULTS

Deposit Insurance Reserve Fund

DICO's primary financial priority during 2005 was to continue to build an insurance reserve fund to protect depositors while minimizing claims and premium levels. At the end of 2005, the fund amounted to $85.0 million compared to our target of $84.8 million. The $0.2 million improvement was due primarily to lower operating expenses. Provisions for insurance losses amounted to $2.7 million which reflected the estimated losses on new claims and adjustments related to prior claims including recoveries on losses previously incurred. The general reserve for insurance losses of $1.75 million was reduced by $0.25 million to reflect the loss experience over the past five year period.

Long-Term Fund Strategy

DICO's fund strategy is based on an actuarial model that measures the probability and risk of potential claims against the fund to determine the required size of the fund. After consultations with industry and government stakeholders in 2003, it was concluded that a fund of 60 basis points of insured deposits would be sufficient to provide a confidence level of 95% that the insurance fund would not go into deficit. At the end of 2005 the fund stood at about 50 basis points of insured deposits or 85% of the target fund size. DICO has also committed to testing this target based on the risk profile of the movement, at least annually. Our testing in 2005 indicated that the fund target had not changed materially.



Maintaining Appropriate Contingency Financing

In addition to DICO's deposit insurance reserve fund, the Corporation has access to a line of credit with a major domestic bank secured by a $150 million loan guarantee provided by the government of Ontario. Based upon the long-term fund strategy proposed by DICO, this loan guarantee is in place until December 2008.

Developing and Testing a Contingency Plan

An important element of DICO's ability to address a crisis situation is having a tested contingency plan that can adequately respond to various failure scenarios. While past experience has shown that usually the most effective response to an institutional failure is to place a member institution under administration and find going concern solutions, it is possible that a situation may arise that would preclude that course of action. Under such a scenario, DICO has the obligation, by statute, to pay depositors the portion of their deposits that are insured. To ensure that DICO has the ability to identify insured deposits, testing of various member institutions' data systems were undertaken during 2005. As a result of these tests, we were able to determine the nature and types of issues that might arise in the event of a payout scenario as well as verify that the reported insured deposits were accurate.

Maximizing Investment Income

In order to comply with statutory requirements and its own liquidity needs, DICO's policy is to invest all of its funds in shorter term, low-risk securities.

During 2005 DICO decided to engage the Ontario Financing Authority (OFA), the agency charged with the responsibility of managing the Province's cash and debt, to manage its investment portfolio. A management agreement, which sets out DICO's objectives of capital preservation, adequate liquidity and enhanced yield, governs the management process. As a result, by the end of 2005 DICO's investments are being managed by the OFA and the effective yield on the portfolio has risen to 3.40% at year end.

Maintaining Collaborative Relationships with Stakeholders

DICO continues to place a high degree of importance on collaborative relationships with its stakeholders. Good working relationships with various stakeholders are important in order to achieve our objectives. During 2005, our specific goals included:

- Conducting consultative processes through advisory and ad-hoc committees;
- Communicating effectively with stakeholders and establishing protocols;
- Conducting research into consumer awareness about deposit insurance coverage; and
- Working closely with FSCO and the Ministry of Finance.

2005 RESULTS

Conducting Consultative Processes

Our advisory committees play a significant role in helping the Corporation to develop its stabilization programs, standards of sound business and financial practices and related implementation tools. Throughout 2005 the Sound Business and Financial Practices Advisory Committee was very active in assisting in the development of various tools to help in the implementation of the standards by-law. DICO and the industry are grateful to the members of these committees who volunteer their time and energy for the benefit of all member institutions.

Communicating Effectively with Stakeholders

DICO participated in a series of legislative consultative meetings across Ontario. The objective of participating in these regional meetings was to assist the Ministry of Finance as well as providing stakeholders an update on DICO related issues.

During 2005, DICO concluded a protocol agreement with La Fédération des caisses populaires de l'Ontario. This agreement, which is similar to one with L'Alliance des caisses populaires, recognizes the important roles that both L'Alliance and La Fédération play with its members and have been instrumental in improving relationships between L'Alliance, La Fédération, their members and DICO.

DICO's website site continues to be enhanced on a regular basis. DICO makes available all its information and analysis relating to each member institution on a confidential basis to the institution itself.

Conducting Research into Consumer Awareness

In conjunction with other Canadian financial services compensation funds such as the Canada Deposit Insurance Corporation (CDIC), Canadian Investor Protection Fund (CIPF), Assuris (Life & Health Insurance Compensation Fund), Property and Casualty Insurance Compensation Corporation (PACICC), Mutual Fund Dealers Association (MFDA) and the Authorité des Marchés Financiers (Quebec) DICO participated in an ongoing assessment of consumer awareness about compensation schemes. The result of our research confirmed that the most effective way to educate consumers about deposit insurance coverage was to provide information at the time that deposits are made at the institutions. To assist front line staff of member institutions in providing information about deposit insurance, DICO has developed and distributed a "Quick Reference Guide". DICO is also participating with other compensation funds in a joint website site at www.financeprotection.ca specifically designed to provide guidance to consumers about the protection of their financial assets.

Working Closely with FSCO and the Ministry of Finance

DICO recognizes that a close working relationship with the industry's regulator will enhance the effectiveness and efficiency of the depositor protection process. FSCO and DICO work together to co-ordinate activities and minimize the burden and cost to the system. Our letter of understanding with FSCO calls for DICO to provide FSCO access to its integrated monitoring systems, including OSV reports, at no cost to FSCO. We work with FSCO to continue the tradition of excellence in consumer protection for depositors and members of credit unions and caisses populaires in Ontario.

DICO also assists the Ministry of Finance in its policy-making function by providing information and analysis regarding the credit union and caisse populaire industry. Through the provisions of its Memorandum of Understanding with the Minister of Finance, DICO also fulfils other duties as assigned by the government.

Assisting International Credit Union Community

During 2005 DICO assisted a project funded by the Canadian International Development Agency (CIDA) in Ukraine for the development of a regulatory and consumer protection regime for credit unions. Our staff contributed to the project by providing technical assistance and advice to the Ukrainian Government and Credit Union System in conjunction with the Canadian Cooperative Association (CCA). An official delegation visiting from the Ukraine met with DICO staff and received extensive training, professional support and reference materials.

Effective and Efficient Management

DICO is committed to ensuring that its stakeholders receive value for money. To achieve this goal, DICO has established a disciplined approach to corporate governance. At the core of its governance structure is the planning and reporting framework. Management submits its annual business plan to the Board of Directors, the Minister of Finance and Management Board Secretariat for review and approval. Actual results are monitored by the Audit & Finance Committee of the Board at least quarterly and the Annual Report provides a report on results to all stakeholders. Internal audit and external audit reports provide the Board with assurances that management has reported information accurately. As required by statute, the Superintendent of FSCO also reports to the Minister on DICO's activities annually. This report is tabled in the Legislature by the Minister. During 2005, our specific goals included:

- Updating our Framework for Enterprise Risk Management;
- Ensuring that business plan targets and performance targets are met or exceeded within budget;
- Reviewing all DICO corporate policies;
- Reviewing our expenditure levels.

2005 RESULTS

Framework for Enterprise Risk Management

To ensure that its principal risks are effectively managed, DICO has developed a comprehensive framework for enterprise risk management. This framework is essential to determine whether all principal risks have been identified, assessed and adequately managed. During 2005 DICO updated its assessments of significant risks and introduced a revised enterprise risk management reporting system.

Business Plan Targets

During the past year DICO continued to look at ways to enhance its effectiveness and efficiency and to provide better value to stakeholders. All major initiatives were developed while meeting budget targets.

Reviewing Corporate Policies

In accordance with good corporate governance practices, DICO's Board of Directors reviews its by-laws and all its corporate policies at least annually. DICO also ensures that it itself meets the requirements of its standards by-law. As a result of the proposed new standards by-law, DICO identified several new policies that were required to meet the new standards. New policies were approved by the board in 2005 to address these areas.

Reviewing our Expenditure Levels

As the number of member institutions declines and their financial and operational health improves, DICO must continuously review its organization to ensure that we are meeting our mandate while delivering value to our stakeholders. In this context, a further review of our organizational structure and expenditure levels was undertaken during the year. As a result of this review, the number of full time staff equivalents was reduced from 33 to 30 and net operating expenditures to $5.6 million - a reduction of 3% from the 2005 budget.

2006 OBJECTIVES

In addition to our normal activities, DICO has planned for a number of major initiatives to be undertaken during 2006:

- Increase the insurance reserve fund to $94 million by the end of 2006 or 90% of our fund target;
- Review the adequacy of the fund target of 60 basis points of insured deposits;
- Review the differential premium system and the premium rate structure;
- Participate in the legislative reform process including revising DICO programs, policies and practices where necessary;
- Implement the revised Risk Assessment Framework and related on-site verification processes;
- Develop a protocol with leagues and associations as appropriate; and
- Update the Framework for Enterprise Risk Management.

OUR COMMITMENT

The Board and staff of DICO are committed to providing protection, security and stability to the Ontario Credit Union and Caisse Populaire movement for the benefit of all its members. We look forward to the opportunity in 2006 of continuing to demonstrate our commitment.

Andy Poprawa, CA
President & CEO

Management's Discussion and Analysis

The following discussion and analysis focuses on DICO's operations and financial position for the year ended December 31, 2005. The Corporation adopted the Canadian Institute of Chartered Accountants' (CICA) guideline on the consolidation of variable interest entities ("VIEs") on January 1, 2005. The consolidated financial statements combined DICO's operations and the operation of three credit unions in liquidation that meet the criteria for VIEs consolidation. Details of this change in Accounting Policy are included in Note 1(a) in the Notes to Consolidated Financial Statements.

2005 Financial Overview

Highlights:

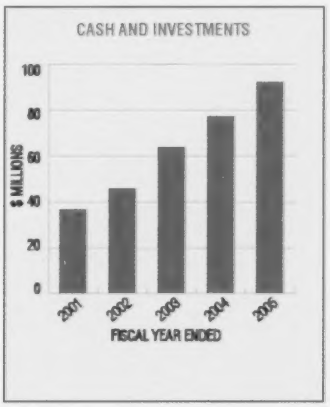
For the year ended December 31 *(in thousands $)*	2005	2004	2003	Change from 2004 $	%	2005 Target
Deposit Insurance Reserve Fund	85,004	74,351	60,763	10,653	14	84,786
Premium income	16,513	16,207	15,122	306	2	16,867
Investment & other income	2,460	1,819	1,833	641	35	2,374
Gross operating expense	5,699	5,844	6,274	(145)	(2)	5,903
Provision for insurance losses	3,188	0	0	3,188	-	3,000
Recovery of insurance losses	499	1,271	6,608	(772)	(61)	0
Recovery of operating expenses	68	151	351	(48)	(32)	113

Statement of Financial Position

Cash and Investments

The Corporation entered into an Investment Management Agreement with the Ontario Financing Authority (OFA) to manage the majority of DICO's investment portfolio effective September 30, 2005. DICO's investment policy is to invest in shorter term, low-risk securities in order to meet its possible liquidity needs in the event of an institutional failure and to comply with requirements under both the Income Tax Act and Regulation 78/95 of the Credit Unions and Caisses Populaires Act, 1994.

As at December 31, 2005, the Corporation's cash and investment portfolio totalled a net value of $92.1 million, an increase of $14.8 million compared to a year ago. The combined balance consists of cash and short-term investments of $3.8 million and investments of $88.3 million. The portfolio's weighted average yield as of December 31, 2005 was 3.4%, 88 basis points higher than last year and the 4th quarter performance matched the market benchmark (SC 91-Day T-Bill Index) of 0.74%. All investments are highly liquid, fixed rate contracts, and are R1 Mid or better on the DBRS scale. The sources and uses of cash are disclosed in the Consolidated Statement of Cash Flows.



Premiums Receivable

The Premiums receivable of $2.6 million represents the current billings of member institutions with fiscal years ending September 30, 2005 and an accrual of pro-rated premiums for member institutions with fiscal years ending October 31 to November 30, 2005. As at December 31, 2005 there were no overdue premiums receivable.

Deferred Premium Income

Differential premiums are calculated based on the amount of each member institution's insured deposits at the end of its fiscal year. Premium income is amortized over a twelve-month period. Deferred premium income of $2.8 million represents the balance of pro-rated invoiced amounts for member institutions whose fiscal year straddles DICO's fiscal year-end.

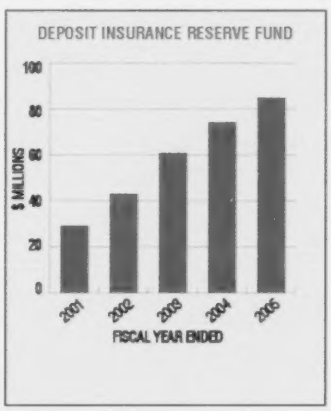
Accrual for deposit insurance losses

The accrual for deposit insurance losses increased to $4.8 million as at December 31, 2005. During the year, a new specific provision of $3 million was provided for one member institution which was placed under the Administration program. Other liabilities for deposit insurance losses include a general accrual for losses of $1.75 million. The methodology used to determine the provisions for general and specific losses is described in detail in Note 1(c) to the financial statements.

Statement of Operations and Changes in the Deposit Insurance Reserve Fund

Deposit Insurance Reserve Fund

The Deposit Insurance Reserve Fund increased 14% to $85.0 million, a net increase of $10.7 million in 2005. The increase in the Reserve Fund was primarily attributable to the relative strength of premium and investment income and tight control of operating expenses. In 2005, total income amounted to $19.0 million, against net operating expenses of $5.6 million and net provision for losses of $2.7 million, resulting a net gain for the year of $10.7 million.



Premium income

Premium income for the year was $16.5 million, compared to $16.2 million in 2004. The $0.3 million (2%) increase was lower than expected. The slower growth of premium income was mainly due to an overall improvement in risk profiles of individual member institutions and thus paying a lower premium as well as a lower than anticipated level of insured deposits.

Differential premium rates in effect for 2005 were unchanged from the 2004 premium. Premiums are based on the total amount of insured deposits held by member institutions as of their fiscal year ends, calculated in accordance with the Differential Premium Risk Classification System as defined by the regulation.

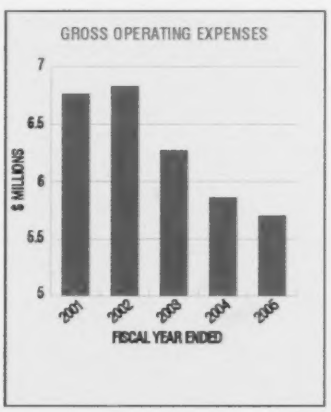
Provision for Deposit Insurance Losses and Recoveries

Total provision for new losses for the year was $3.2 million compared to no new provisions last year. New provisions for losses were required for 2 member institutions as they were placed under Administration and Liquidation respectively.

During the year the Corporation finalized the estates of 7 member institutions in liquidation and adjusted the required provisions to complete the liquidation. The net adjustment resulted in a decrease of $0.5 million in losses for 2005.

Operating expenses

Operating expenses (before recoveries) for 2005 totalled $5.7 million, a reduction of $0.2 million (3%) from last year. The decrease in operating costs reflects the lower levels of activity as well as the Corporation's continued success in controlling costs.



Management's Responsibility

The Deposit Insurance Corporation of Ontario's management is responsible for the integrity and fair presentation of the financial statements included in the annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The Corporation maintains systems of internal accounting controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

The consolidated financial statements have been reviewed by the Corporation's Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been examined by KPMG LLP, the auditors, whose report follows.

Andy Poprawa, CA
President & CEO

James Maxwell
Chief Administrative and Financial Officer

Toronto, Canada
January 30, 2006

Auditors' Report

KPMG LLP

To the Board of Directors of
Deposit Insurance Corporation of Ontario

We have audited the Consolidated Statement of Financial Position of Deposit Insurance Corporation of Ontario as at December 31, 2005 and the Consolidated Statement of Operations and Changes in the Deposit Insurance Reserve Fund and the Consolidated Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Canada
January 30, 2006

DEPOSIT INSURANCE CORPORATION OF ONTARIO

Consolidated Statement of Financial Position

DECEMBER 31, 2005, WITH COMPARATIVE FIGURES FOR 2004 *(IN THOUSANDS OF DOLLARS)*

	2005 (Consolidated)	2004
ASSETS		
Cash and short-term investments (note 2)	$ 3,838	$ 27,439
Investments (note 3)	88,289	49,855
Loans (net of allowance) (note 4)	335	-
Premiums receivable	2,608	2,382
Interest and other receivables	150	496
Deposit insurance advances recoverable	-	907
Capital assets (net of accumulated amortization of $3,338 (2004 - $3,244))	198	259
	$ 95,418	$ 81,338
LIABILITIES		
Payables and accruals	$ 2,087	$ 2,145
Member Shares and Deposits of institutions in liquidation (note 5)	694	-
Deferred premium income	2,772	2,625
Accrual for deposit insurance losses (note 6)	4,861	2,217
Total Liabilities	10,414	6,987
Deposit Insurance Reserve Fund	85,004	74,351
	$ 95,418	$ 81,338

Commitments (note 7)
Contingencies (note 12)

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

DEPOSIT INSURANCE CORPORATION OF ONTARIO

Consolidated Statement of Operations and Changes in the Deposit Insurance Reserve Fund

YEAR ENDED DECEMBER 31, 2005, WITH COMPARATIVE FIGURES FOR 2004 *(IN THOUSANDS OF DOLLARS)*

	2005 (Consolidated)	2004
INCOME		
Premium income	**$ 16,513**	$ 16,207
Other Income	**2,460**	1,819
	18,973	18,026
EXPENSES		
Provision / (Recovery) of losses	**2,689**	(1,271)
Salaries and benefits	**3,436**	3,688
Operating expenses	**2,263**	2,172
Recovery of operating expenses	**(68)**	(151)
	8,320	4,438
Excess of income over expenses	**10,653**	13,588
Deposit Insurance Reserve Fund, beginning of year	**74,351**	60,763
Deposit Insurance Reserve Fund, end of year	**$ 85,004**	$ 74,351

See accompanying notes to financial statements.

DEPOSIT INSURANCE CORPORATION OF ONTARIO

Consolidated Statement of Cash Flows

YEAR ENDED DECEMBER 31, 2005, WITH COMPARATIVE FIGURES FOR 2004 *(IN THOUSANDS OF DOLLARS)*

	2005 (Consolidated)	2004
Cash received from (applied to):		
Operations:		
Excess of income over expenses	**$ 10,653**	$13,588
Items charged to operations not affecting cash:		
Provision/ (Recovery) of losses	**2,689**	(1,271)
Loss on disposal of capital assets	**21**	1
Amortization	**122**	117
	13,485	12,435
Changes in:		
Premiums receivable	**(226)**	347
Loan Receivable	**130**	-
Interest and other receivables	**359**	(223)
Payables and accruals	**(68)**	273
Deferred premium income	**147**	(163)
	342	234
Net advances by deposit insurer	**(86)**	-
Net deposit insurance recoveries (note 6)	**136**	978
	50	978
	13,877	13,647
Investing activities:		
Purchase of investments	**(88,289)**	(49,855)
Proceeds on sale of investments	**49,855**	32,360
Purchase of capital assets	**(61)**	(175)
Proceeds on sale of capital assets	**86**	15
	(38,409)	(17,655)
Decrease in cash position during the year	**(24,532)**	(4,008)
Cash position, beginning of year	**28,370**	31,447
Cash position, end of year	**$ 3,838**	$27,439
Supplementary cash flow information:		
Loan guarantee fee paid during the year	**$ 16**	$ 15
Interest received during the year	**$ 2,711**	$ 1,482

Cash position is defined as cash and short-term investments less any borrowings.
See accompanying notes to financial statements.

Notes to Consolidated Financial Statements Year ended December 31, 2005

General

Deposit Insurance Corporation of Ontario ("DICO" or "the Corporation") is an "Operational Enterprise" Agency of the Province of Ontario established without share capital under the provisions of the Credit Unions and Caisses Populaires Act, 1994 ("the Act").

The statutory objects of the Corporation under the Act are to:

- provide deposit insurance to depositors of member institutions;
- act as stabilization authority for the credit union and caisse populaire system;
- promote standards of sound business and financial practices;
- collect and publish statistics;
- provide financial assistance to member institutions;
- act as administrator of member institutions;
- minimize deposit insurance risk and size of claims.

The Act empowers the Corporation to assess its member institutions deposit insurance premiums to meet the Corporation's requirements for insurance funding and administrative costs. The Corporation establishes its premiums rates annually. They are approved by the Government of Ontario and incorporated into the regulations through appropriate amendments as necessary.

Borrowings of the Corporation are guaranteed by a Minister's guarantee on behalf of the Province of Ontario. The guarantee is for a maximum of $150 million and continues until December 31, 2008. In addition to the guarantee fee of one-half of one per cent of the average end of day balance outstanding of any debt obligation subject to the Minister's guarantee, the Province of Ontario charges a fee of 5 basis points on the unused portion of any credit facility guaranteed for the period ending December 31 of each year during which the guarantee is in effect. The Corporation has in place a revolving credit facility with a Canadian chartered bank in the amount of $20 million, approved by the Ontario Financing Authority which administers the Minister's guarantee. The standby fee charged by the Chartered bank is 3 basis points on average unused portion of the credit facility, payable in arrears quarterly.

1. Summary of Significant Accounting Policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). To facilitate a better understanding of our consolidated financial statements, the Corporation has disclosed its significant accounting policies as follows:

(a) Variable Interest Entities

Change in Accounting Policy

Effective January 1, 2005, the Corporation prospectively adopted the CICA's new accounting guideline on the consolidation of variable interest entities ("VIEs"). VIEs include entities in which the equity investors do not have a controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support by other parties. AcG-15 requires the consolidation of a VIE by its primary beneficiary defined as the party that receives the majority of expected residual returns and/or that absorbs the majority of the entity's expected losses. As liquidator of the estates of credit unions in liquidation, it has been determined that these rules require the Corporation to consolidate credit unions in liquidation if claims by DICO against the estate represent more than 50% of the total liabilities of the credit unions during the year. The assets and liabilities of the credit unions which meet the criteria for consolidation were recorded in the Corporation's books at their respective fair values on January 1, 2005.

(b) Premium income:

Premiums are based on a Differential Premium Risk Classification System as defined by regulation applied to insured deposits held by member institutions. Premium income is calculated based on the Annual Member Institution Return submitted by the member institutions, which is due 75 days after its fiscal year end. Premium income is recognized when earned.

(c) Provision for losses:

The provision for losses includes allowances against deposit insurance advances to member institutions in liquidation and an accrual for losses for which advances have not been made at the date of the Consolidated Statement of Financial Position.

Funds advanced in respect of deposit insurance and loans to member institutions are initially recorded at cost. Deposit insurance advances recoverable are presented on the Consolidated Statement of Financial Position net of allowances thereon.

The accrual for deposit insurance losses includes both provisions for specific losses and a general provision for losses. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions, in the opinion of management, exist that will likely result in losses to the Corporation.

The general provision for losses reflects management's best estimate of losses on insured deposits arising from the inherent risk in member institutions. The provision is established by assessing the aggregate risk in member institutions based on current market and economic conditions, the likelihood of losses and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates.

(d) Pension benefits:

Pension benefits include a defined contribution pension plan covering all of its regular, non-contractual employees as well as supplemental arrangements, which provide pension benefits in excess of registered pension plan limits. Earnings are charged with the cost of pension benefits earned by employees as service is rendered. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The Corporation assumes no actuarial or investment risk.

(e) Future non-pension post-retirement benefits:

Future non-pension post-retirement benefits relate to the Corporation's extended health, dental and life benefits for both active employees for whom a full eligibility date was determined and existing qualified retirees. The Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits. The Accrued benefits obligation is actuarially determined using the projected benefit method prorated on service. Cumulative gains and losses in excess of the accrued benefit obligation at the beginning of the year are amortized over the expected average remaining service of active members.

(f) Investments:

Investments comprise short-term fixed income instruments and are recorded at amortized cost. The discounts are amortized on a straight line basis over the terms of the instruments.

(g) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Amortization of furniture and equipment is provided by the diminishing-balance method at the rate of 20 per cent per annum. Computer and related equipment and software are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(h) Income Taxes:

The Corporation uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the date of enactment or substantive enactment.

2. Cash and short-term investments:

The short-term investments have a term to maturity of less than 90 days on the date of purchase. All investments are highly liquid fixed rate contracts.

	December 31, 2005			December 31, 2004		
	Amount (thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount (thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Short-term investments	$ 1,989	3.32%	49	$ 25,816	2.26%	64
Cash	951			1,623		
Cash of institutions in liquidation	898					
Total	**$ 3,838**			**$ 27,439**		

3. Investments:

The Corporation has contracted the Ontario Financing Authority to manage its investment portfolio effective September 30, 2005. The composition of DICO's investments reflects the nature of the Corporation's potential insurance obligations and is structured to comply with the requirements under both the Income Tax Act and Regulation 78/95 of the Credit Unions and Caisses Populaires Act, 1994.

Investments have terms to maturity of 90 days or greater on the date of purchase. They have a weighted-average yield of 3.40% (2004: 2.61%). In compliance with the Corporation's investment policy and relevant statutes, all investments are highly liquid fixed rate contracts and are R1 MID or better on the DBRS scale.

	December 31, 2005			December 31, 2004		
	Amount (thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount (thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Treasury Bills - Canada	$ 46,609	3.39%	96	$ 40,549	2.61%	224
Bankers' acceptances/ Deposit Notes	23,334	3.43%	73	5,409	2.35%	110
Structured Securities	18,346	3.36%	55	-	-	-
Treasury Bills - Ontario	-	-	-	3,897	2.85%	279
Total	**$ 88,289**	**3.40%**	**81**	**$ 49,855**	**2.61%**	**216**

4. Loans (net of allowance):

Loans (net of allowance) of $ 335,000 are comprised of loans of credit unions in liquidation of $273,000 and loans purchased from the estate of credit unions in liquidation of $62,000.

5. Member Shares and Deposits of institutions in liquidation:

Member shares and deposits of institutions in liquidation of $694,000 are comprised of $680,000 in member shares and $14,000 in deposits. DICO has an obligation to insure the amounts on deposit up to the prescribed amounts. DICO has no obligation to insure member shares but as liquidator has the responsibility to distribute any residual funds to members once the liquidation is complete.

6. Accrual for deposit insurance losses:

The provision for losses includes specific provisions for known or likely losses from specific member institutions and a general accrual for losses not identified with specific institutions. That portion of the provision for losses recorded in the year and in previous years which has not yet required payment by the Corporation is shown in liabilities on the Consolidated Statement of Financial Position as "Accrual for deposit insurance losses".

	2005	2004
	(thousands)	
Accrual for deposit insurance losses, beginning of year	$2,217	$2,505
Increase in accrual for current year's deposit insurance losses	3,054	-
Decrease in accrual for prior year's deposit insurance losses	(365)	(1,271)
(Decrease) Increase in deposit insurance advances recoverable	(845)	5
Increase in advances from DICO	86	-
Consolidation of advances from DICO	6,861	-
Deficits of institutions in consolidation	(6,197)	-
Accrual for deposit insurance losses, at end of year	(4,861)	(2,217)
Net deposit insurance recoveries	$ (50)	$(978)

The general accrual for losses included in "Accrual for deposit insurance losses" amounted to $1,750,000 (2004 - $2,000,000) and is calculated in accordance with the methodology as described in note 1(c).

7. Lease Commitments:

The operating lease for the Corporation's premises is for the term commencing January 1, 1998 and ending August 5, 2007. The future annual minimum rent is $140,000. In addition, the Corporation is required to pay property taxes and common area maintenance costs which are approximately $288,000 per annum.

8. Income Taxes:

The Corporation is subject to income taxes on its income as defined under the Income Tax Act. It has accumulated losses for income tax purposes of $31,202,000. They expire as follows:

Originating Taxation Year	Expiring Taxation Year	Amount *(thousands)*
1999	2006	5,975
2000	2007	4,992
2001	2008	4,191
2002	2009	5,161
2003	2010	4,124
2004	2014	3,790
2005	2015	2,969
		$31,202

The Corporation has determined that realization of the future income tax assets do not meet the more-likely-than-not criterion for recognition and, therefore, a valuation allowance has been recorded against future income tax assets.

9. Pension Plan:

The Corporation implemented a defined contribution pension plan effective January 1, 1999. The pension expense charged to income for 2005 was $306,000 (2004 - $300,000)

10. Future non-pension post-retirement benefits:

The Corporation accounts for the current value of future non-pension post-retirement benefits. The accrued benefit liability as at December 31, 2005, as actuarially determined, is $967,000 (2004 - $875,000). Current service costs, including interest, were $124,000 (2004 - $120,000). Actuarial valuation for the Corporation's plan is required every three years. The most recent actuarial valuation was conducted as of September 30, 2005 and the date of the next required valuation is September 30, 2008.

The assumptions used in the actuarial valuation of the future benefits obligations consisted of: interest rate of 5.25% (2004 - 6.5%), rate of compensation increase of 3.5% (2004 - 4%) and initial weighted average trend rate in health and dental costs of 6.2% (2004 - 10%), grading down to 5% per annum by 2016. The Corporation measures its accrued benefit obligations as at September 30 of each year.

RECONCILIATION OF ACCRUED BENEFIT OBLIGATION TO THE ACCRUED BENEFIT LIABILITY	FISCAL YEAR ENDING DECEMBER 31, 2005 (THOUSANDS)
Accrued benefit obligation	$1,755
Employer contributions during year	(9)
Unamortized net actuarial loss	(779)
Accrued benefit liability	$ 967

CHANGE IN BENEFIT OBLIGATIONS	FISCAL YEAR ENDING DECEMBER 31, 2005 (THOUSANDS)
Balance beginning of the year	$1,023
Current service cost	53
Interest cost	69
Actuarial losses	641
Benefit payments	(31)
Balance end of year	$1,755

11. Directors' Expense:

During the year the directors received an aggregate remuneration of $51,000 (2004 - $75,000). Total directors' expenses were $36,000 (2004 - $60,000). The fixed per diem rate for the Chair is $500 and for all other board members is $300.

12. Contingencies:

The Corporation is subject to various legal actions brought against it in the normal course of business, when acting in the capacity of administrator or liquidator. It is the view of the Corporation's management that these actions will be successfully defended. Accordingly, no provisions have been made in these financial statements.

13. Fair Value Disclosure:

The fair value of financial assets and liabilities which include cash and short-term investments, investments, loans, premium receivable, interest and other receivables, payables and accruals, member shares and deposits approximate their carrying amounts.

The fair value of deposit insurance advances recoverable and the accrual for deposit insurance losses have not been determined because it is not practicable to determine fair value with sufficient reliability.

14. Compensation:

The following information is furnished in compliance with the Public Sector Salary Disclosure Act, 1996.

Employee	Position held	Compensation	Taxable* Benefits
Brydges, Barry	Vice President Insurance & Risk Management	$ 148,581	$ 8,522
Burgman, John	Chief Information Officer	$ 112,138	$14,318
Dale, Richard	Regional Manager Insurance & Risk Management	$ 103,700	$ 1,505
D'Errico Tony	Regional Manager Insurance & Risk Management	$ 102,800	$ 1,453
Foster, C.William D.	Vice President Asset Management & Recoveries	$ 154,115	$ 6,943
Hutton, John	Regional Manager Insurance & Risk Management	$ 102,800	$ 1,453
Maxwell, James	Chief Administrative & Financial Officer	$ 133,927	$14,449
Poprawa, Andrew	President and CEO	$ 203,601	$ 6,637

* Includes taxable group life insurance, parking and use of company vehicle.

15. Comparative figures:

Certain comparative figures for 2004 have been reclassified to conform with the financial statement presentation adopted for 2005.

Deposit Insurance Corporation of Ontario's Member Institutions

December 31, 2005

Credit Unions

3M Employees' (London) Credit Union Limited
Adjala Credit Union Limited
Air - Toronto Credit Union Limited
Airline Financial Credit Union Limited
All Trans Financial Services Credit Union Limited
Alterna Savings and Credit Union Limited
Anishinabek Nation Credit Union Inc.
APPLE Community Credit Union Limited
Arnstein Community Credit Union Limited
Auto Workers (Ajax) Credit Union Limited
Auto Workers Community Credit Union Limited
Bay Credit Union Limited
Bayshore Credit Union Ltd.
Brewers Warehousing Employees (Hamilton) Credit Union Limited
Brewers Warehousing Employees (Kitchener) Credit Union Limited
Budd Automotive Employees (Kitchener) Credit Union Limited
Buduchnist Credit Union Limited
Campbell's Employees' (Toronto) Credit Union Limited
Canadian General Tower Employees (Galt) Credit Union Limited
Canada Sand Papers Employees' (Plattsville) Credit Union Limited
Canadian Transportation Employees' Credit Union Ltd.
Canal City Savings and Credit Union Limited
Cataract Savings & Credit Union Limited
CCB Employees' Credit Union Limited
City Savings & Credit Union Limited
C.N. (London) Credit Union Limited
C.N.R. Employees (Lakehead Terminal) Credit Union Limited
Community First Credit Union Limited
Community Saving & Credit Union Limited
Communication Technologies Credit Union Limited
Croatian (Toronto) Credit Union Limited
Crown Cork & Seal Employees Credit Union Limited
Dana Canada Employees' (Ontario) Credit Union Limited
Desjardins Credit Union Inc.
Employees of Dofasco (Hamilton) Credit Union Limited
Domtar Newsprint Employees (Trenton) Credit Union Limited
DUCA Financial Services Credit Union Ltd.
Dundalk District Credit Union Limited
Dunnville and District Credit Union Limited
Durham Educational Employees' Credit Union Limited
Education Credit Union Limited
Equity Credit Union Inc.
Espanola & District Credit Union Limited
Estonian (Toronto) Credit Union Limited
Etobicoke Aluminum Employees' Credit Union Limited
Etobicoke Teachers' Credit Union Limited
Eureka Employees' (Woodstock) Credit Union Limited
Federal Employees (Kingston) Credit Union Limited
Fiberglas Employees (Guelph) Credit Union Limited
Finnish Credit Union Limited
Fire Department Employees Credit Union Limited (The)
FirstOntario Credit Union Limited
Food Family Credit Union Limited
Fort Erie Community Credit Union Limited
Fort York Community Credit Union Limited
Ganaraska Credit Union Ltd.
Genfast Employees Credit Union Limited
Goderich Community Credit Union Limited
Goodyear Employees (Bowmanville) Credit Union Limited
Grand River Credit Union Limited
Grey Bruce Health Services Credit Union Limited
G.S.W. (Fergus) Credit Union Limited
Hald - Nor Community Credit Union Limited
Hamilton Community Credit Union Limited
Hamilton Municipal Employees' Credit Union Limited
Hamilton Teachers' Credit Union Limited
Health Care Credit Union Limited
Heritage Savings & Credit Union Inc.
Hir-Walk Employees' (Windsor) Credit Union Limited
Hobart Employees' (Owen Sound) Credit Union Limited
Holy Angel's & St. Anne's Parish (St. Thomas) Credit Union Limited
Holy Name Parish (Pembroke) Credit Union Limited
Italian Canadian Savings & Credit Union Limited
Kakabeka Falls Community Credit Union Limited
Kawartha Credit Union Limited
Kellogg Employees Credit Union Limited
Kenora District Credit Union Limited
Kingston Community Credit Union Limited
King-York Newsmen Toronto Credit Union Limited
Korean (Toronto) Credit Union Limited
Korean Catholic Church Credit Union Limited
Kraft Canada Employees' (Cobourg) Credit Union Limited
Krek Slovenian Credit Union Ltd.
Labatt Employees' (London) Credit Union Limited
Lakewood Credit Union Limited
Lambton Financial Credit Union Limited
Lasco Employees' (Whitby) Credit Union Limited
Latvian Credit Union Limited
Lear Seating Canada Employees' (Kitchener) Credit Union Limited
L.I.U.N.A. Local 183 Credit Union Limited
London Civic Employees' Credit Union Limited
London Diesel Employees' Credit Union Limited
London Fire Fighters' Credit Union Limited
Maitland Credit Union Limited
Mariposa Community Credit Union Limited
McMaster Savings and Credit Union Limited
Media Group Financial Credit Union Limited
Member Savings Credit Union Limited
MemberOne Credit Union Limited
Mennonite Savings and Credit Union (Ontario) Limited
Meridian Credit Union Limited
Miracle Credit Union Ltd.
Mitchell & District Credit Union Limited
Molson Brewery Employees Credit Union Limited
Moore Employees' Credit Union Limited
Motor City Community Credit Union Limited
Municipal Employees (Chatham) Credit Union Limited
Nasco Employees' Credit Union Limited
NCR Employees' Credit Union Ltd.
North York Community Credit Union Limited
Northern Credit Union Limited
Northern Lights Credit Union Limited
Northland Savings and Credit Union Limited
Northridge Savings & Credit Union Limited
ONR Employees' (North Bay) Credit Union Limited
Ontario Civil Service Credit Union Limited
Ontario Educational Credit Union Limited

Ontario Provincial Police Association Credit Union Limited
Oregon Employees Credit Union Limited
Oshawa Community Credit Union Limited
Ottawa Fire Fighters' Credit Union Limited
Ottawa Police Credit Union Limited
Ottawa Women's Credit Union Limited
Pace Savings & Credit Union Limited
Parama Lithuanian Credit Union Limited
Pedeco (Brockville) Credit Union Limited
Peek Frean Employees' (Toronto) Credit Union Limited
PenFinancial Credit Union Limited
Peoples Credit Union Limited
Peterborough Community Credit Union Limited
Peterborough Industrial Credit Union Limited
Photel (Toronto) Credit Union Limited
Police Credit Union Limited (The)
Polish Alliance (Brant) Credit Union Limited
Portuguese Canadian Credit Union Limited
Prime Savings Credit Union Limited
Prosperity One Credit Union Limited
Provincial Alliance Credit Union Limited
QuintEssential Credit Union Limited
Railway Employees' (Sarnia) Credit Union Limited
R.B.W. Employees' (Owen Sound) Credit Union Limited
Resurrection Credit Union Limited
Rochdale Credit Union Limited
Saugeen Community Credit Union Limited
Scarborough Hospitals Employees' Credit Union Limited
Sheridan Park Credit Union Limited
Slovenia Parishes (Toronto) Credit Union Limited
Smiths Falls Community Credit Union Limited
So-Use Credit Union Limited
Southlake Regional Health Centre Employees' Credit Union Limited
Southwest Regional Credit Union Ltd.
St. Josaphat's Parish (Toronto) Credit Union Limited
St. Marys Paperworkers Credit Union Limited
St. Mary's (Toronto) Credit Union Limited
St. Stanislaus-St. Casimir's Polish Parishes Credit Union Limited
St. Willibrord Community Credit Union Limited
Standard Tube Employees' (Woodstock) Credit Union Limited
Starnews Credit Union Limited
State Farm (Toronto) Credit Union Limited
Stelco Finishing Works Credit Union Limited
Sudbury Regional Credit Union Limited
Sunnybrook Credit Union Limited
Superior Credit Union Limited
Sydenham Community Credit Union Limited
Taiwanese - Canadian Toronto Credit Union Limited
Talka Lithuanian Credit Union Limited
Thamesville Community Credit Union Limited
Thorold Community Credit Union Limited
Thunder Bay Elevators Employees' Credit Union Limited
Timmins Regional Credit Union Ltd.
Tobacco Workers' (Guelph) Credit Union Limited
Toronto Catholic School Board Employees Credit Union Limited
Toronto Electrical Utilities Credit Union Limited (The)
Toronto Municipal Employee's Credit Union Limited
Twin Oak Credit Union Ltd.
Ukrainian Credit Union Limited
Ukrainian (St. Catharines) Credit Union Limited
Unigasco Community Credit Union Limited
United Employees Credit Union Limited
United Communities Credit Union Limited
United Ukrainian Credit Union Limited
Unity Savings and Credit Union Limited
Utilities Employees' (Windsor) Credit Union Limited
Victory Community Credit Union Limited
Virtual One Credit Union Limited
Wallace Barnes Employees' Credit Union Limited
William S. Gibson Employees' Credit Union (Mt. Dennis) Limited
Windsor Family Credit Union Limited
Windsor-Essex County Catholic Parishes Credit Union Ltd.
Your Credit Union Limited
Your Neighbourhood Credit Union Limited

Caisses Populaires

Caisse populaire Azilda Inc.
Caisse populaire Coniston Inc.
Caisse populaire d'Alban Limitée
Caisse populaire d'Alfred Limitée
Caisse populaire de Bonfield Limitée
Caisse populaire de Cochrane Limitée
Caisse populaire de Cornwall Inc.
Caisse populaire de Field Limitée (La)
Caisse populaire de Hawkesbury Limitée
Caisse populaire de Hearst Limitée
Caisse populaire de Kapuskasing Limitée
Caisse populaire de la Vallée
Caisse populaire de Mattawa Limitée
Caisse populaire de Mattice Limitée
Caisse populaire de New Liskeard Limitée (La)
Caisse populaire de Noëlville Limitée
Caisse populaire de North Bay Limitée
Caisse populaire de Pointe-aux-Roches Limitée
Caisse populaire de Técumseh Inc.
Caisse populaire de Timmins Limitée (La)
Caisse populaire de Verner Limitée
Caisse populaire d'Earlton Limitée (La)
Caisse populaire d'Orléans Inc.
Caisse populaire Lasalle Inc.
Caisse populaire Nolin de Sudbury Incorporée
Caisse populaire Nouvel-Horizon Inc.
Caisse populaire Rideau d'Ottawa Inc.
Caisse populaire St-Charles Boromée Limitée
Caisse populaire St-Jacques de Hanmer Inc.
Caisse populaire Sturgeon Falls Limitée
Caisse populaire Trillium Inc.
Caisse populaire Val Caron Limitée
Caisse populaire Vermillon
Caisse populaire Vision Inc.
Caisse populaire Welland Limitée

Leagues

L'Alliance des caisses populaires de l'Ontario Inc.
Credit Union Central of Ontario
Fédération des caisses populaires de l'Ontario Inc.(La)